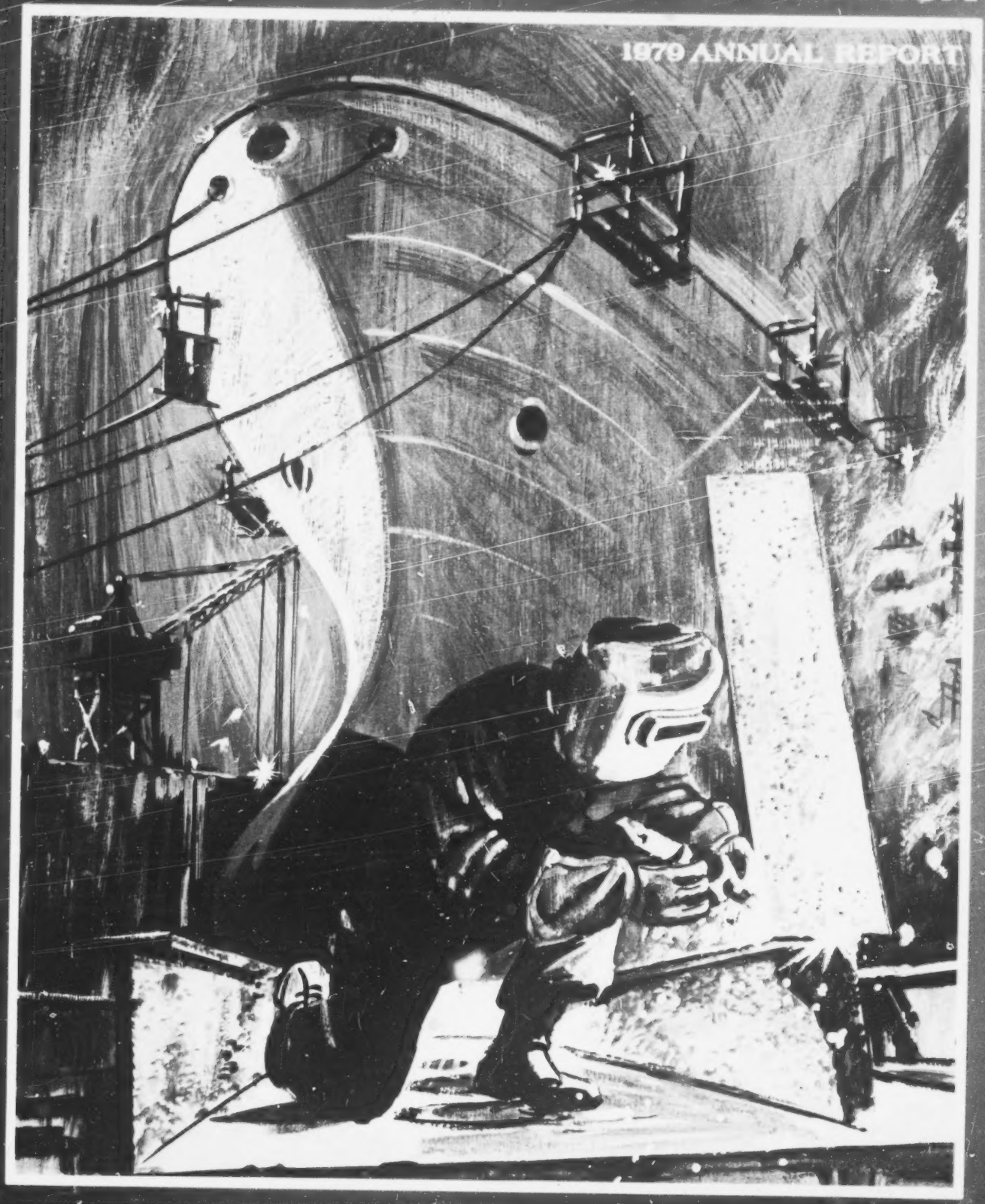
SHIPBUILDERS COUNCIL OF AMERICA



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FOREWORD

1979, as it turned out, was indeed a watchful year for U.S. shipbuilders and their allied suppliers marked by a mixture of both optimism and pessimism. There were indications that the world shipping recession might be easing. There were evidences of cutbacks in the world surplus of shipbuilding capacity. And, the numbers and the tonnage of ships in layup declined. In the United States, there was considerable government, industry and labor momentum, all in search of remedies to persistent maritime ills.

The underpinnings of U.S. maritime and naval policy were subjected to intensive reexamination, and the signs of change began to take shape. With a diminished naval and merchant fleet toiling to affirm a modicum of maritime superiority for the United States in a troubled world, a time for change could be said to be overdue.

Concurrently, the world orderbook for merchant ship construction increased hardly at all, and the quest for new work intensified everywhere. With an imbalance in supply and demand, many shipbuilders abroad continued to offer to build ships and accepted contracts at prices having little or no relationship to real costs. Their governments, through an array of direct and indirect financing and tax incentives, over and above those normally available, encouraged and endorsed this practice of "false" pricing. In this country, inflation and domestic regulatory requirements restrain the kind of price/cost maneuvering which has "benefitted" foreign shipbuilders.

U.S. shipbuilders, however, experienced the same decline in market demand for merchant ships in 1979. The backlog of contracts, placed earlier in the decade, is rapidly decreasing. It appears certain that the outlook for newbuildings, absent a change in national policy, will not support a stable workforce. The problem of overcapacity in the United States will not likely become critical for another year or two, though one shipbuilder ceased full operations in 1979. Two others turned to the production and assembly of railroad cars in an effort to minimize a projected downturn in the shipyards' employment. Meantime, the U.S. led the world in new contracts for the construction of offshore jackup oil drilling rigs, and ship repair facilities were extraordinarily active. The outlook for rig construction in 1980 appears equally as favorable, and at year-end, additional contracts were near the point of signing. Optimistically, another project calling for liquefied natural gas (LNG) carriers built in the United States may also receive final approval in the coming year.

In mid-December of 1979, the Carter Administration, reversing the direction of its foreign and domestic policies, announced intentions to renew the United States Navy to a level of 550 ships by the early 1990's. This action, occasioned by turmoil in the Middle East, will restore a part of the more than 50 percent reduction in the five-year naval shipbuilding plan, which the Carter Administration invoked in recent years. Some shipbuilders, earlier concerned about future workloads and employment for their skilled workers, will accordingly rest easier.

In retrospect, the optimism of 1979 would seem to have outweighed the pessimism. A changing climate, implying a better future for the shipbuilding industry of the United States, would now seem predictable. The purposes and resources of the Council remain dedicated to the accomplishment of that reality.

Edwin M. Hood
President

March 12, 1980

OVERVIEW

The need for change in policy directions affecting naval as well as commercial shipbuilding in the United States became more pronounced in 1979. With the Persian Gulf as the latest focal point of world politics, there has been increasing skepticism, in and out of government, here and abroad, regarding the ability of the United States to sustain any possible challenge to U.S. national interests in that volatile area of the world.

Extended public and Congressional discussions suggested a matrix of deficiencies and contradictions along the following lines:

- The United States, for all practical purposes, is an island nation and no longer self-sufficient.
- 68 of 71 critical and strategic materials without which the entire U.S. industrial structure and defense establishment could not function must be imported by ship, and U.S. dependency on more than 20 of these items ranges from 50 to 100.
- Though the United States is the world's leading trading Nation, the active, privately-owned U.S.-flag merchant marine has dropped to some 540 vessels and now ranks tenth among world shipping fleets.
- The commercial shipping resources of the United States equate to about only one percent of the aggregate world shipping fleet.
- The volume of U.S. trade and commerce carried by U.S.-flag shipping is less than five percent overall — in terms of oil imports, it is about two percent — in terms of bulk commodities, about one percent.

  In other words, ships of other nations transport more than 95 percent of U.S. cargoes, and in some cases, 99 percent — one percentage point less than 100.
- The U.S.-flag dry bulk fleet is composed of 19 ships, 16 of which are more than 30 years of age.
- The active United States Navy is presently composed of 458 ships, the Soviet Navy is reportedly comprised of nearly 1,800 vessels — the U.S. is thus outnumbered by a ratio of almost four to one, and the Soviets are rapidly closing the firepower gap.
- The size of the U.S. Navy is now at its lowest level since before World War II.
- Since 1977, the five-year naval shipbuilding plan has been reduced from 157 to 67 ships, and this more than 50 percent reduction will impact on U.S. naval combat versatility in the middle to late 1980's. The impact of increases now proposed will not be felt until the early 1990's.
- The backup industrial structure for naval and mercant ship construction as well as the domestic transportation network to move military equipment to seaports have, for the past two decades, been badly neglected in the policy-making and decision-making processes.

The collective impact of these mostly negative facts — which are rarely considered one with the other, in toto — have serious implications to U.S. national security, especially at a time when the presence of Soviet naval ships on the oceans of the world is steadily spreading and especially at a time when shipping and shipbuilding capabilities under

U.S. sovereignty and control are increasingly important to any comprehensive national strategy.

Maritime superiority, in the broadest sense, is at issue. Regrettably, the lasting importance of ships, shipping and shipyards to essential national interests has all too often been sidetracked by debate on a multitude of other issues — more recently, the Panama Canal treaty, the SALT II arms control agreement, ocean mining jurisdictions, energy shortages, fiscal restraints and others. The importance of availability of sea lines of communication — freedom of the seas — for commerce and security has somehow been obscured by political manipulations.

In an "about face" with respect to strongly espoused foreign and defense policies of different meter, the Carter Administration has evidently decided that, in these critical times, the posture of U.S. military and maritime strength is much too precarious. Seizure of the U.S. embassy in Iran, the enforced confinement of American hostages by a band of alleged students in Tehran, and the arrogant invasion of Afghanistan by the Soviet Union have combined in a way to account for this sudden change of direction. Public reactions have been apolitical: a latent sense of national resolve has awakened.

Preparedness for any contingency now seems to be the guiding precept. Shifting public opinion suggests that more and more Americans favor an uplifting of the U.S. defense posture, a stronger stance in opposing Soviet stratagems and more emphasis on U.S. self-interests.

Despite shipbuilding conditions, as they may or may not prevail in other countries, it can be expected that a national Administration, of whatever political persuasion, will, in the next four years, stimulate more ship construction in U.S. shipyards than has been the case in the previous four years. The geopolitical problems of an unstable world cannot be ignored. The alternative could be fateful not so much for shipbuilders, but for the Nation as a whole.

SHIPBUILDING AND REPAIR: TRENDS AND PROJECTIONS 1972 - 1980
(in millions of dollars except as noted)

ITEM	1972	1974	1975	1976	1977	1978[1]	1979[1]	1980[1]
Industry[2]								
Value of work done	3,281	4,825	5,615	5,896	6,461	6,834	6,884	6,724
Total Employment (thousands)	144.6	162.2	166.9	166.3	175.5	170.2	155.7	139.0
Production Workers (thousands)	118.0	129.0	133.4	132.1	139.4	135.3	123.8	110.5
Value added	1,881	2,547	2,923	3,287	3,806	3,806	3,834	3,745
Product[3]								
Value of work done total	3,201	4,712	5,513	5,833	6,248	6,629	6,677	6,523
Non-propelled new ships	362	460	643	645	494	662	679	528
Self-propelled new military ships	1,100	1,714	1,768	1,957	2,221	2,349	2,366	2,324
Self-propelled new non-military ships	816	1,290	1,806	1,825	1,893	1,902	1,917	1,881
Repair of military ships	387	533	554	644	741	891	870	925
Repair of non-military ships	484	713	688	715	756	780	800	820
Shipbuilding and repair, n.s.k.	52	2	54	47	143	45	45	45

[1] Estimated by Maritime Administration and Shipbuilders Council of America
[2] Includes value of all products and services sold by the shipbuilding and repair industry
[3] Includes value of work done on ships only
n.s.k. - not specified by kind
Source: Bureau of Census, Bureau of Labor Statistics, Maritime Administration, Shipbuilders Council of America

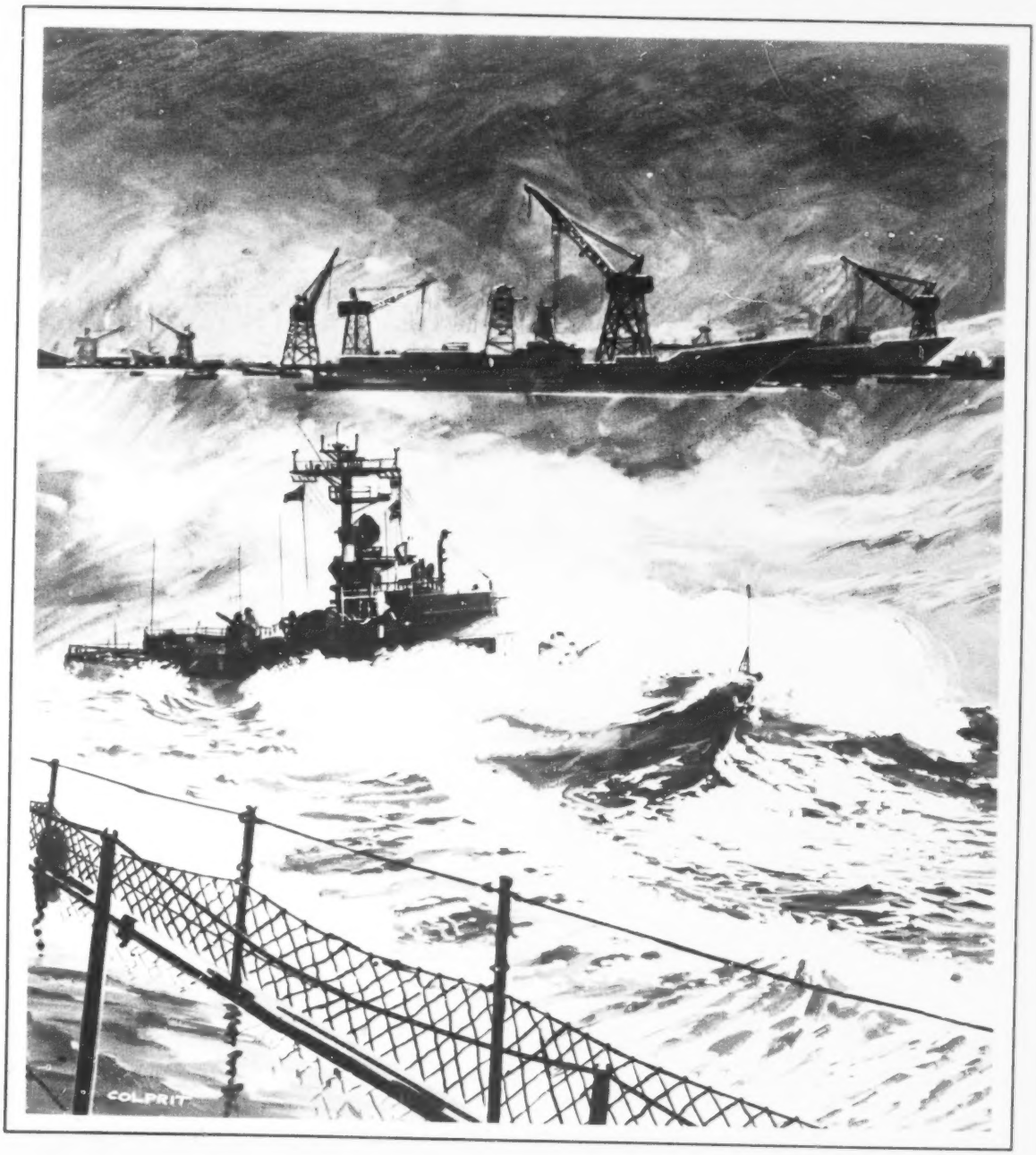
PRIVATE SHIPYARD REVENUES: ESTIMATED ANNUAL AVERAGE
January 1, 1980 - December 31, 1984 (millions of dollars)

	Low	High
MERCHANT FLEET		
Ship Construction		
Tankers	$ 80	$ 160
LNG Carriers	70	150
Dry Cargo/Other Oceangoing Vessels	85	300
Small and Nonpropelled Vessels (including barges)	420	600
Great Lakes Vessels	70	150
Ship Repair & Conversion	700	1,000
Subtotal	**$1,425**	**$2,360**
NAVAL FLEET		
Ship Construction & Conversion	$1,800	$2,400
Ship Repair & Alteration	900	1,300
Subtotal	**$2,700**	**$3,700**
OTHER SHIPWORK		
Offshore Drilling Units	$ 100	$ 300
U.S. Coast Guard, Corps of Engineers, Fisheries, etc.	80	125
Subtotal	**$ 180**	**$ 425**
Aggregate Total	**$4,305**	**$6,485**

Note: Estimates represent average annual dollar receipts for shipyard work excluding value of purchased material and nonship products of builders. They approximate annual average "value of work done" modified to exclude contract retentions, claims, etc.

Source: Shipbuilders Council of America

NAVAL SHIPBUILDING



The Chief of Naval Operations, in a speech at the Council's Board of Directors luncheon in December (see page 17), stated: the U.S. Navy is now "stretched paperthin." He went on to assert that (1) "any size of a defense budget that is reasonable is not going to produce the numbers of ships that we want right away," (2) "we must have a Navy that is capable of operating globally wherever and whenever we declare it is necessary," and (3) "we certainly need more than we have now."

These statements, by a distinguished naval officer, underscore the dilemma of U.S. naval strength in a troubled world. "Stretched paperthin," tremendous credit must go to the entire naval establishment, uniformed and civilian, for its proficiency in fulfilling broadened missions and greater responsibilities with less than optimum resources.

Measured against the expanding thrust of the Soviet Navy toward supremacy on the seas, the retaliatory capability of the U.S. Navy fleet of 458 vessels which may not be restored to 550 ships before the mid-1990's becomes increasingly critical. This situation can be attributed to fluctuations in successive five-year naval shipbuilding plans:

FISCAL YEAR	TOTAL	AVERAGE YEAR
1977	111 ships	22 ships
1978	156 ships	31 ships
1979	70 ships	14 ships
1980	67 ships	13 ships
1981 (Proposed)	97 ships	19 ships

"Unaffordable" or "unattainable" have been the quick justifications for the absence of consistency. The real requirements for naval power have been subjugated in the name of fiscal restraint. Shipbuilders are unable to project production and workforce requirements with any confidence. And future naval capabilities rest on the hope of "catching up" in later years.

These kinds of procrastinations are not without risk. The Soviet Navy has been intensively engaged in "catching up," and there is now concern that the relative balance in naval strength will shortly favor the Russians. The national security of the United States could well be endangered.

With the move toward a 550-ship Navy, however belated, it is obvious that naval shipbuilding planning must be based on longer-term considerations of specific ship types and numbers of each to maintain required naval "force levels" rather than on five-year fiscal increments.

In these respects, the Chairman of the Senate Committee on Armed Services remarked that "indecision and disarray" concerning the planning for types of ships to be built have impeded Navy shipbuilding. The Chairman of the House Committee on Armed Services expressed the belief, that "it will be in the long-term interest of the Untied States to create a firm 10-15 year naval investment program dedicated to the evolution of a modern and versatile navy capable of coping with the uncertainties of the 21st century." These views were echoed by 153 Congressmen in early October when they jointly appealed to President Carter for a "budget and shipbuilding plan that will provide future generations with a much stronger Navy."

Understandably, a primary issue in the establishment of an appropriate shipbuilding program reflecting the Navy's operational requirements will be its affordability. Past charges of poor management of shipbuilding

programs, controversial claims, and delayed ship deliveries were symptomatic of a contracting environment that was inadequate to the complex task of constructing naval ships. More recent actions undertaken jointly by the Navy and the shipbuilding industry, particularly with respect to the recommendations of a Naval Ship Procurement Process Study, have established a basis for developing a more effective and efficient acquisition procedure. Relevantly, the Naval Shipbuilding Committee has been intensively engaged in monitoring and expediting improvements to those past practices that have excessively contributed to the time and cost of building ships without commensurate benefit to the reliability and capability of those ships.

Further, the Committee is exploring new approaches which may allow the Navy to meet mission requirements at reduced cost. Expansion of the use of valid commercial standards, exploration of civilian manned support ships, and adoption of better contract methodology for the acquisition of ships under a "build and charter" concept illustrate the initiatives that may be undertaken with effective results.

Equal in importance to the establishment of a viable and cost-effective shipbuilding program is the task of maintaining the fighting trim of those naval ships already at sea. Private shipyards annually undertake at least 30 percent of required naval ship repair and overhaul work. As the complexity and sophistication of warships grow so must the capabilities of U.S. repair yards. The Ship Repair Committee continues to maintain an active and wide-ranging program in collaboration with the Forces Afloat and the Naval Sea Systems Command to assure adequate opportunity for the private yards to meet this responsibility.

MERCHANT SHIPBUILDING

The imperfections of U.S. maritime policy have long been self-evident. The implications with respect to national security, shipping resources, industrial momentum, economic growth, balance of payments and shipyard workforce/operational stability have been, and still are, far-reaching.

The governments of most U.S. trading partners obviously appreciate more sensitively than the U.S. Government the importance of a strong maritime industry — shipping and shipbuilding — to national economic and security interests. With other countries, control of substantial portions of national cargo has become the rule rather than the exception. Meanwhile, spokesmen and policy-makers for the United States have naively espoused free market premises. In these contexts, it is important to recognize that much of the world's cargo is already subject to unilateral control, either through cargo reservation laws or more importantly through nationally-coordinated policies of buying imports FOB at origin and selling exports at delivered prices.

Though different, the maritime strategies of Japan, Russia and China are all significantly based on control of import/export cargoes. Securing a substantial share of petroleum export shipping by OPEC nations is the announced policy for the future. And many developing economies — Brazil, Chile, Equador, Korea, Taiwan, to name just a few — clearly regard national fleet development based on national cargo reservations as an integral part of their overall economic growth programs.

In light of this international environment, the effects of the lack of a strong, coherent and responsive U.S. maritime policy should hardly be surprising. Allies and detractors have quietly cheered as the volume of trade and commerce carried by American-flag shipping has steadily decreased and the volume of cargoes carried by the ships of other nations has steadily increased. All the while, shipbuilders, in other lands have been, and still are, building approximately 60 percent of the merchant ships which U.S.-owned companies and their affiliates purchase.

In concert, these facts dramatize (1) the inefficacy of recent national maritime endeavors, and (2) the imperativeness of a comprehensive national maritime policy which will sustain sufficient shipping and shipyard resources under sovereign control to assure national security requirements.

For the purpose of developing a shipbuilding consensus with respect to suitable elements to be considered in organizing and implementing an effective national maritime policy, the Commercial Shipbuilding Committee, in 1979, concluded an in-depth analysis of historical, economic, foreign trade, regulatory, marketing and geopolitical patterns that bear on shipping demand and the responsive construction of new ships.

This intensive effort has produced a proposal for "A New Direction in U.S. Maritime Policy" involving a series of ten recommendations (see box) for addressing the market, financial and operational problems facing U.S. ship owner/operators as a step toward an orderly rebuilding of a balanced U.S.-flag merchant fleet by U.S. shipbuilders.

These recommendations — or market initiatives — center on opportunities for selective bilateral shipping agreements affecting bulk movements between the United States and other nations. They are intended to be compatible with the objectives of the Trade Act of 1974. They are designed to encourage

RECOMMENDATIONS

- **Legislation to Encourage and Facilitate Bilateral Ocean Cargo Sharing Agreements**
- **Expand Enforcement and Broaden Scope of Present Cargo Preference Law (Public Law 664)**
- **Extend Section 27, Merchant Marine Act of 1920 (Jones Act) to Virgin Islands**
- **Improve Capital Recovery Allowances Under Tax Law for Investment in U.S.-Built Ships**
- **Restructure Construction (CDS) and Operating (ODS) Subsidies for Bulk Vessels Into Single Per Diem Subsidy Including Capital Element**
- **Expand Definition of Term "Qualified Vessel" to Permit Tax Deferred Funds Held in Capital Construction Funds to Be Used for Construction of U.S.-Flag Vessels to Be Operated in U.S. Domestic Trades**
- **Amend Sections 804 and 805 of the Merchant Marine Act of 1936 so that U.S.-Flag Subsidized Operators May Own and Operate Non-Subsidized U.S.-Flag and Foreign-Flag Vessels in the Bulk Trades of the United States**
- **Amend Section 905(a) of the Merchant Marine Act of 1936 to Authorize Liquid and Dry Bulk ODS Vessels Unlimited Worldwide Trading with no Abatement of Subsidy**
- **Allow Foreign Sale of CDS-Built Vessels After Ten Years of U.S. Operation on Condition Proceeds are placed in Capital Construction Fund to Construct Replacement Vessels in U.S. within Specified Period**
- **Vessels Constructed for the Account of the United States Government Should be Required to be Built in the United States**

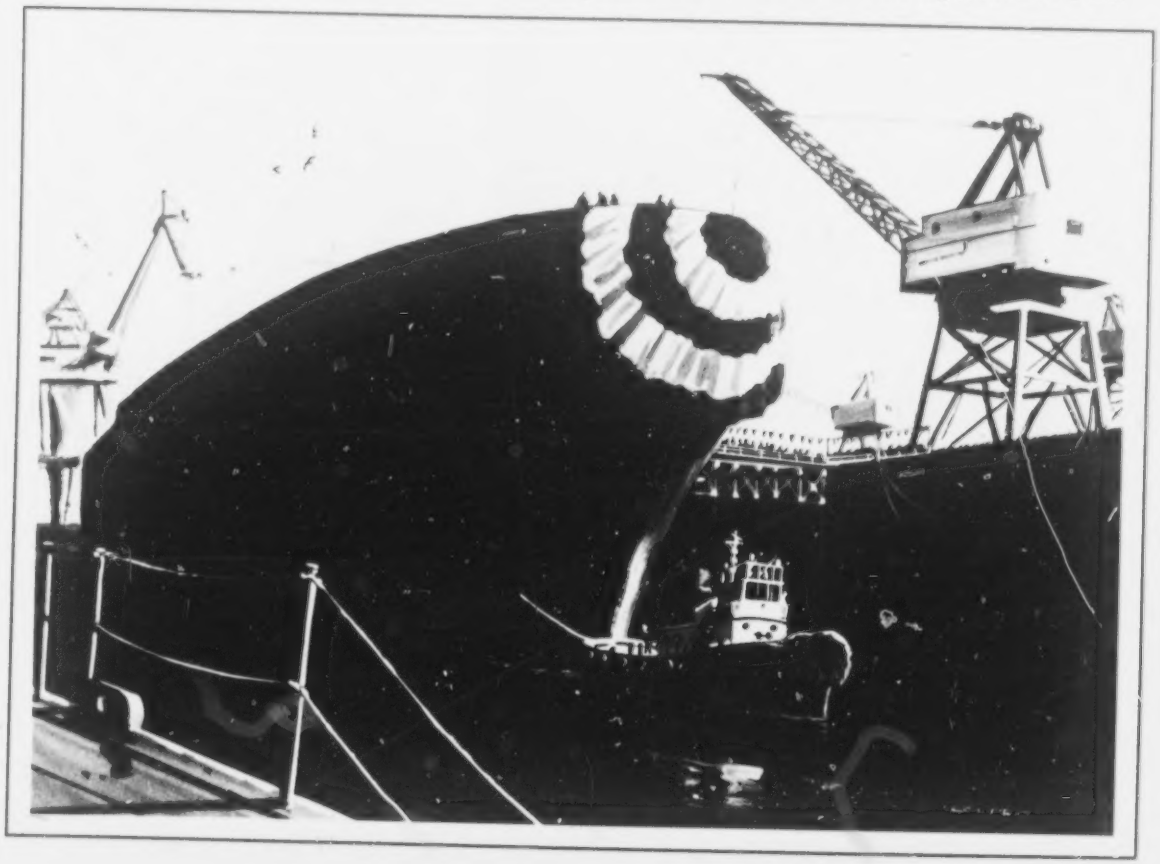
flexibility in shipping operations to maximize capacity utilization and return on investment capital. They are motivated by the following considerations:

- There has not been for some while, the degree of cohesion of purpose and coordination among and within agencies of the Federal Government which is basic to enunciation, enhancement and effectiveness of a shipbuilding industrial strategy in support of U.S. national interests.
- The shipbuilding industry of the United States — including shipbuilders, shiprepairers and the necessary industrial support base — is vital to the national security and economic structure of the Nation.
- Continuance of U.S. shipyard resources with the kind of skilled workforce and operational stability and industrial backup which can lead to greater efficiency, improved productivity and lower costs is equally essential to national security.
- U.S. shipbuilding, when assessed on a macroeconomic basis, contributes importantly to the level of overall economic activity, stimulates substantial domestic investment and employment, particularly employment for minorities, and, when tested against procurement of U.S.-flag vessels abroad, significantly contributes to a reduction in the balance of payments, lowers the Federal deficit, and inflationary effects are negligible.
- Cost is a function of production efficiency (labor, material, capital and facilities), production efficiency is a function of volume, volume is a function of market opportunities, and shipbuilding market opportunities are a function of market

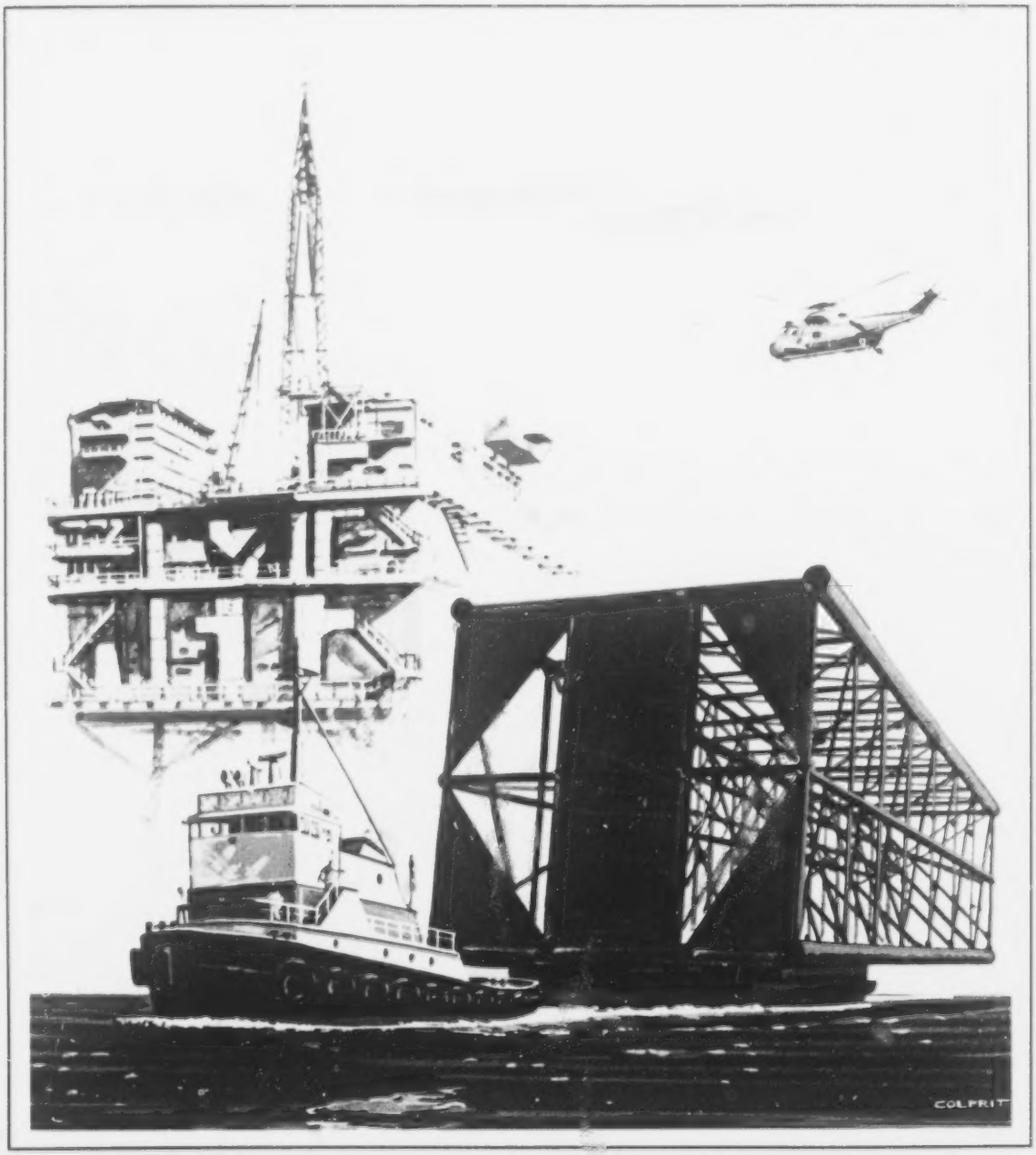
share for U.S.-flag shipping. Market opportunity should be the central thrust of policy change.

- Because under the private enterprise system, vessels other than naval combatants and auxiliaries will not be purchased unless owners can reasonably expect a fair return on investment, the U.S. shipbuilding industry is dedicated to cooperation with shipowners and seagoing and shipyard labor in the achievement of a viable and profitable U.S.-flag, U.S.-built shipping industry encompassing both liner and bulk operations.
- The shipbuilding industry firmly supports the tenet of capital and operating cost parity for U.S.-flag vessel owners who are disadvantaged by foreign-flag counterparts.

Much of the Council's proposed program was pending before the Congress at the close of 1979 within the framework of a comprehensive legislative package offered by the National Maritime Council — composed of shipping and shipyard management as well as seagoing and shipyard labor. There is hope that the momentum of 1979 will lead to enactment of effective merchant marine legislation in 1980.



INDUSTRY DEVELOPMENTS



From the experiences of the past decade, it has been clear that the correlative roles of U.S. ship construction and operation in the U.S. economic and security structure are at best poorly understood and at worst purposely misconstrued. With the view of providing unbiased enlightenment, the Council engaged Data Resources, Inc. (DRI), Lexington, MA to develop a set of econometric tools to quantify, in a consistent way, the costs and benefits to the economy of various policy options for increasing the share of U.S. international commerce transported by ships built and registered in the United States.

DRI, using accepted macroeconomic, microeconomic and input/output analysis techniques, has shown that the positive effects of shipbuilding in this country, as opposed to shipbuilding in other countries for U.S. owners, on the gross national product, balance of payments and employment multipliers are substantial. Also, the inflationary influence is insignificant, and the Federal deficit is reduced. These "bottom line" judgments provide credible justification for a national policy encouraging more ship construction in U.S. shipyards.

Another study of "U.S. Shipbuilding and Its Role in Maintaining the Defense Industrial Base" by Harbridge House, Inc., Boston, MA, sponsored in conjunction with the U.S. Maritime Committee, has raised serious question as to whether or not an adequate defense industrial base for shipbuilding can be maintained with shipyard employment cutbacks, mainly with regard to merchant shipbuilding, presently predicted. (see page 16)

There is also a sociological facet to curtailment of domestic shipbuilding. By rulings of the Department of Labor, "workers or former workers engaged in the construction of ocean-going ships" in three U.S. shipyards displaced as a result of below-cost prices offered by some foreign shipbuilders have been entitled to adjustment assistance under Section 222 of the Trade Act of 1974. These benefits could amount to 70 percent of average weekly wages, up to a maximum of $250 per week, for as long as 52 weeks.

A further intra-industry study has concluded that "U.S. Government regulations necessitated an average 14 percent (11 percent - 16 percent range) add-on to shipyard costs on a value added (labor plus overhead) basis." In addition, Tillinghast, Nelson & Warren, Inc., St. Louis, MO, actuaries/consultants, has projected an 850 percent increase in benefits attributable to the Longshoremen's and Harbor Workers' Compensation Act as amended in 1972. These costs, reflecting U.S. traditions, mores and practices, not only competitively disadvantage U.S. shipbuilders but accelerate inflation.

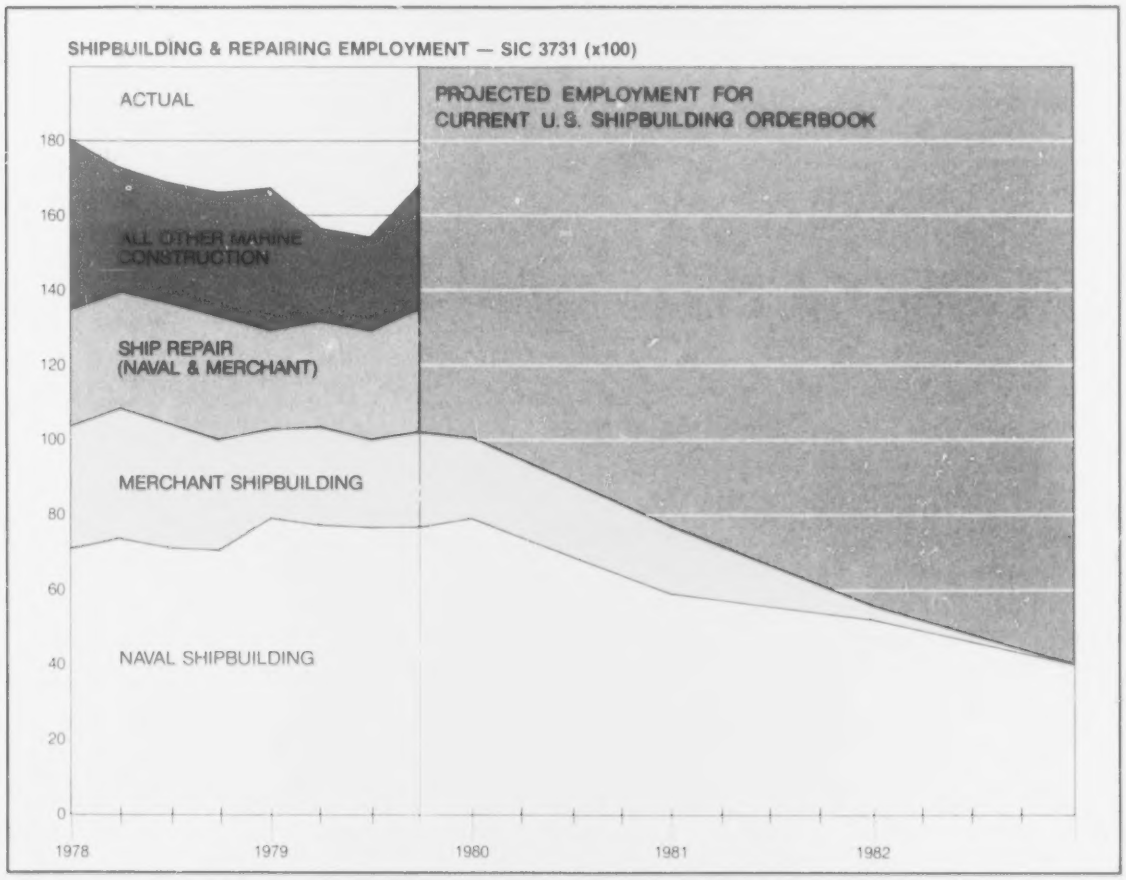
With enactment of the Trade Agreements Act of 1979 (PL 96-39), to implement the so-called Tokyo Round of Multilateral Trade Negotiations, foreign-constructed merchant vessels which engage in U.S. commerce come within the purview of unfair trade practices statutes. The problem of excessive subsidies, of either a direct or indirect nature, which enable shipbuilders to sell ships at less than cost, is thus approachable through government-to-government negotiations.

Accordingly, the Council is preparing a petition, for submission to the Special Representative for Trade Negotiations at The White House, urging that the U.S. Government take cognizance of the marketing practices of foreign shipbuilders in offering below-cost prices with assurances that their governments will compensate them, in one form or another, for the differences between profit and loss.

In sum, 1979 was an extremely active year for U.S. shipbuilders, but they are not immune from external influences. An overcapacity globally accounts for recent gyrations in the

economics of world shipbuilding. Yet, U.S. shipbuilding policy needs to be anchored in the bedrock of national security, economic growth, industrial stability and jobs for American citizens — not to any caprice of transitory "bargain basement" prices abroad or misguided experimentation domestically. It is in this sense that 1980 could well be a pivotal year for the shipbuilding industry of the United States and many thousands of affected U.S. shipyard workers.

Looking ahead for the short-term, market opportunites for U.S. shipbuilders not primarily involved in naval programs would seem to consist mainly of construction of specialized ships and vessels for domestic trades, conversions of existing vessels, including upgrading of National Defense Reserve Fleet vessels, repowering of existing vessels with more fuel and cost efficient propulsion systems, retrofitting of existing vessels to comply with environmental requirements of the Ports and Waterways Safety Act of 1972 as amended in 1978, and certain types of non-ship work.



ACTIVITIES

JAMES R. BARKER

ADM THOMAS HAYWARD, USN

WILLIAM B. JOHNSON

SAMUEL B. NEMIROW

The shipbuilding industry of the United States is not, and has not been, satisfied with the status quo and seeks methods and means by which its historic obligation to the national welfare can be fulfilled. It welcomes debate and study of its role, efficiency and defects.

It strongly believes in, and adheres to, the precept that the industry in concert with those involved in the legislative and administrative process can forge a shipbuilding industrial strategy which will effectively enhance national interests.

This collective attitude has consistently governed the considerations of the membership. It has remarkably influenced the actions of the Council's various Committees (see pages 20 - 22) and of the Board of Directors.

In the process, the Council has joined with other organizations — most notably, the National Maritime Council in 1979 — in endeavoring to develop policies and programs more responsive to today's problems and more durable than those of the past. On many issues, there has been a reconciliation of major differences. Others remain to be resolved, but there appears to be uncontroverted agreement and evidence that ships, shipping and shipyards are essential to U.S. national interests.

In addition, the Council and the Navy have met frequently to discuss mutual objectives in the construction and repair of naval vessels. These so-called "forums" have been mutually beneficial, and have resulted in much progress toward resolution of important problems.

With these accelerations of activities, a new category of membership — Professional Naval Architects — has been established, an ad hoc committee to monitor the progress and substance of "omnibus" maritime legislation has been appointed, and the By-Laws are being revised to provide for election of a Chairman and Vice Chairman of the Board of Directors from industry.

As in past years, viewpoints on various aspects of shipbuilding developments were provided at quarterly Directors' luncheons by the following dignitaries:

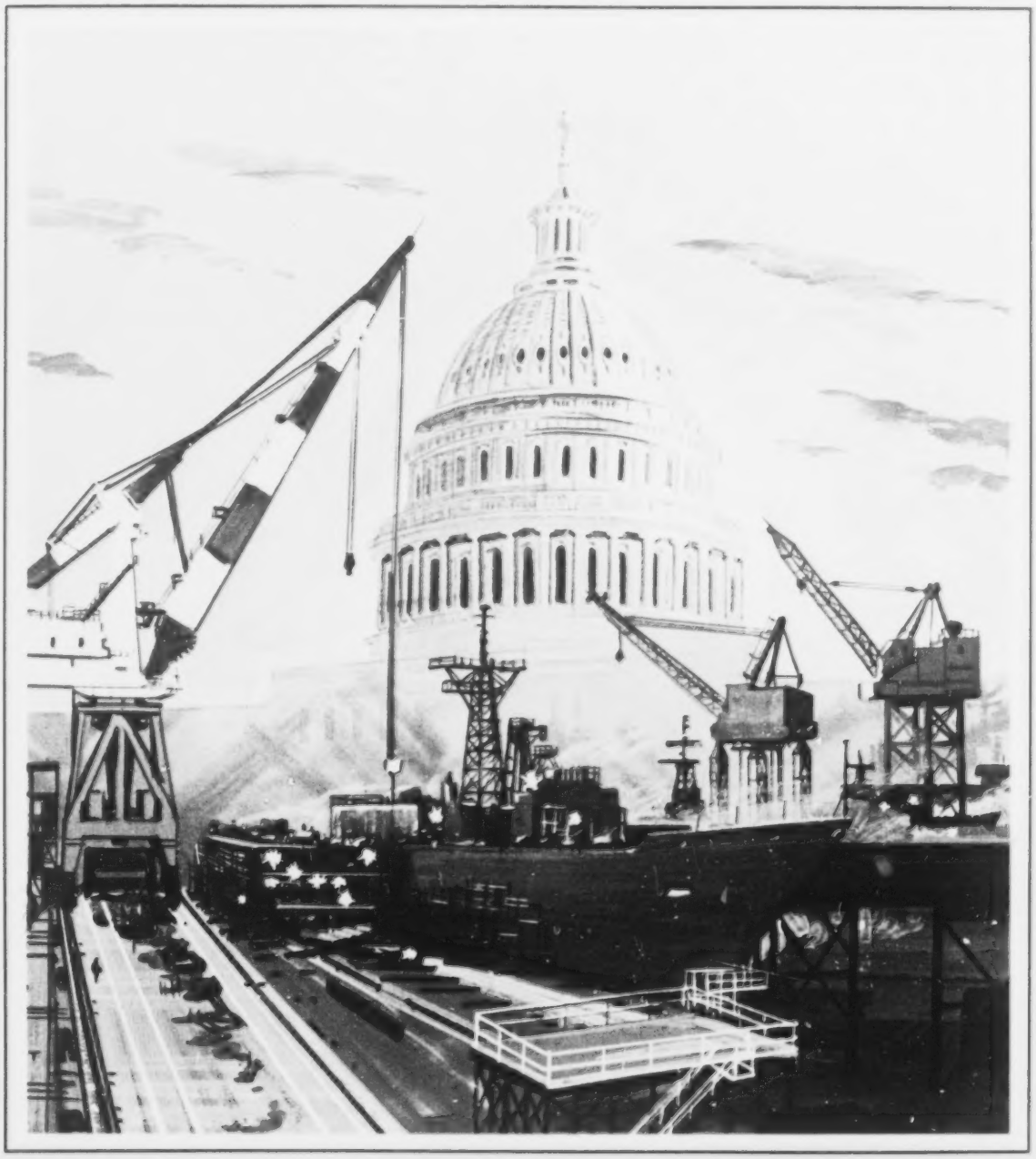
James R. Barker
Chairman, National Maritime Council & Board Chairman, Moore McCormack Resources, Inc.

ADM Thomas B. Hayward, USN
Chief of Naval Operations

The Honorable William B. Johnson
Associate Director, The White House Domestic Policy Staff

The Honorable Samuel B. Nemirow
Assistant Secretary of Commerce for Maritime Affairs

LEGISLATIVE DEVELOPMENTS



The Council's legislative focus in 1979 has been on proposals to remedy the Nation's persistent maritime ills. Within the context of hearings by the Senate Committee on Commerce, Science and Transportation and the House Committee on Merchant Marine and Fisheries on pending bills to restructure regulatory procedures and promotional programs, various recommendations — some old, some new, some imaginative and some controversial — have been put forward by the U.S. maritime community, Federal agencies, outside interests and others. It is generally hoped that some form of "omnibus" maritime legislation will be enacted by the Congress in 1980.

Under certain circumstances, several of these proposals would make operating-differential subsidies (ODS), as provided by the Merchant Marine Act of 1936, as amended, available to merchant vessels built in other countries. The National Maritime Council (NMC) would particularly predicate the maintenenance of "an efficient and competitive shipbuilding capacity sufficient to satisfy the needs of national security" through an adequate level of construction-differential subsidy (CDS) supported merchant ship construction, Jones Act and/or naval shipbuilding contracts equated to a total level of shipyard employment of approximately 115,000 to 130,000 workers per year.

When this mobilization base target is met as a result of market influences or when annual CDS appropriations as a result of Congressional actions are not sufficient, U.S. shipowner/operators could acquire foreign-built vessels for U.S. registry with eligibility for ODS, carriage of preference cargoes (without waiting three years as presently), and, as appropriate, participation in bilateral cargo sharing on bulk movements.

Clearly, a crucial determinant with regard to the NMC proposal would be the magnitude and constancy of CDS appropriations not only to assure maintenance of the shipbuilding base but to assure cost acquisition parity for U.S. subsidized operators. Clearly, all elements of the maritime community would have to unite each year to make certain that a sufficient level of CDS funding is requested by the Administration and authorized and appropriated by the Congress.

In addition to emphasis on maritime "omnibus" legislation, the Council, in 1979, has supported these legislative objectives: **(1)** the Navy's budget request for funding to repair, overhaul and alter naval vessels **(2)** programs to stimulate ocean thermal energy conversion (OTEC) projects, **(3)** clarification of deep seabed ocean mining jurisdictions, **(4)** permanent authorities for negotiating contracting between ship purchaser and shipbuilder, **(5)** extension of war risk insurance coverage, and **(6)** amendments to the Longshoremen's and Harbor Workers' Compensation Act to clarify jurisdictional questions and to reform administrative procedures.

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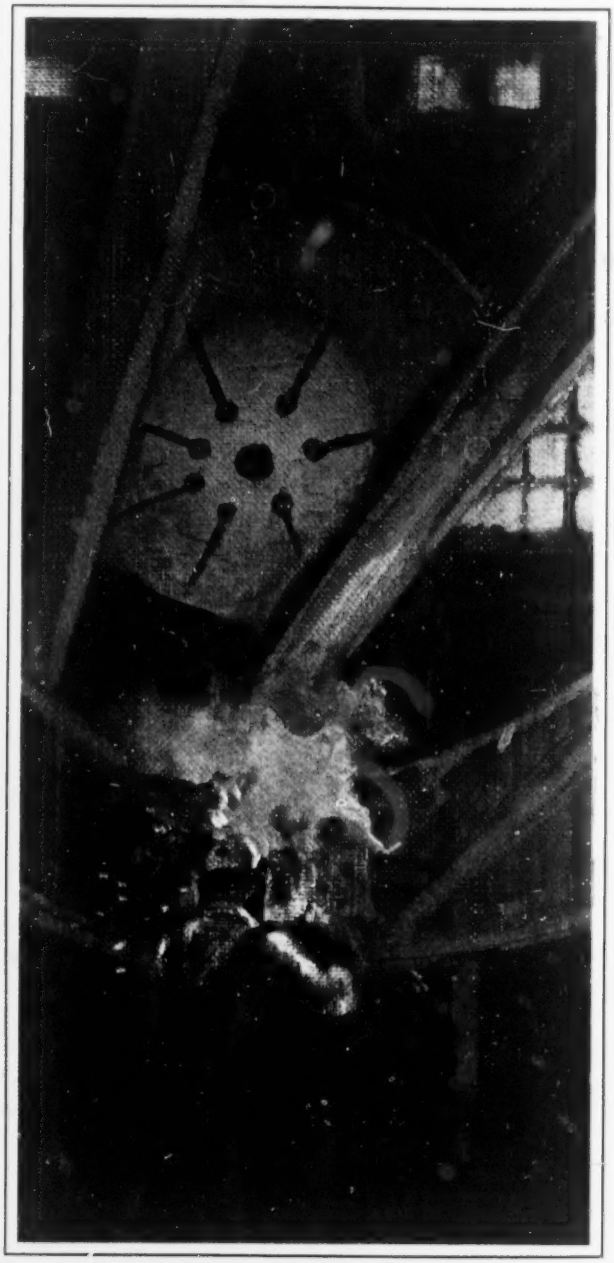


Merchant Ship Orders: During 1979, U.S. private shipyards received contracts for 21 merchant ships aggregating 487,170 gross tons (gt). New orders for 1978 and 1977 were 30 vessels (394,023 gt) and 13 vessels (265,500 gt) respectively. Contracts awarded in 1979 included seven tug/barges, four tankers, three containerships, three self-propelled hopper dredges, two Great Lakes ore carriers, one container-roll on/roll off vessel and one ferry.

Merchant Ship Deliveries: Merchant ship deliveries for 1979 totaled 21 vessels of 1,298,414 gt. In 1978, 19 ships of 1,027,100 gt were completed compared with 25 ships of 1,035,900 gt in 1977. 1979 deliveries consisted of seven tankers, four liquefied natural gas (LNG) carriers, three Great Lakes ore carriers, two containerships, one self-propelled pipe laying ship, one self-propelled hopper dredge, one breakbulk cargo ship, one tuna purseiner and one heavy-lift ship. During 1979, one order for a roll on/roll off barge was cancelled.

Merchant Ship Orderbook: As 1980 began, the backlog of merchant ships under construction or on order in U.S. commercial shipyards comprised 69 ships totaling 1,816,448 gt. One year earlier, the comparable figures were 70 ships and 2,635,192 gt. Composition of the current backlog: nine tankers of which only one is a very large crude carrier (VLCC), seven LNG carriers, 12 tug/barges, nine ferries, six Great Lakes ore carriers, five oceangoing dry bulk carriers, six hopper dredges, six containerships, three container-roll on/roll off vessels, two lighter aboard ship (LASH) vessels; two breakbulk cargo ships and two tuna purseiners.

Oil Drilling Rigs: U.S. shipyards, during 1979, received contracts to build 30 new mobile oil drilling rigs. All of these were jackups. In 1978, contracts for 19 rigs were placed in United States. At the close of 1979, there were 35 rigs

on order or under construction compared with 23 rigs at the end of 1978. A total of 18 rigs of all types were delivered in 1979. Deliveries for 1978 totaled ten.

Naval Ship Orders: In 1979, orders for 13 new naval ships were placed in U.S. shipyards compared to 25 ships in 1978. They included eight guided missile frigates of the OLIVER HAZARD PERRY (FFG-7) class, two attack submarines (SSN), one destroyer, one destroyer tender and one cable repair ship. At year end, still to be ordered were 14 ships in the FY 79/80 naval ship program: one TRIDENT, two SSN'S, one CVN, one CG, six FFG's and three ocean surveillance ships.

Naval Ship Deliveries: U.S. shipyard deliveries in 1979 included 16 naval vessels: one repair drydock (ARDM), two submarine tenders, seven destroyers (DD), one guided missile frigate (FFG), one amphibious assault ship (LHA), two fleet ocean tugs (T-ATF), and two attack submarines (SSN).

Naval Ship Orderbook: At the close of 1979, U.S. private shipyards had 99 naval vessels of 629,782 light displacement tons (ldt) under construction or on order. Comparable figures at the end of 1978 were 102 vessels of 670,913 ldt. Current naval shipbuilding orderbook is set forth in detail on page 29.

Proposed FY'81 Navy Budget: The requested budget for naval ship construction and conversion in FY'81 totals $6,118.4 million compared with $5,148.8 and $6,682.3 million in FY'79 and FY'80 respectively. The FY'81 budget projects planned construction of only nine combatant ships, as opposed to 11 such ships in FY'80, and eight auxiliary ships including two Maritime Prepositioning Ships to commercial standards. The budget also includes funds for the overhaul/modernization (SLEP) of one existing aircraft carrier to extend its service life

and the conversion of a cargo ship to resupply FBM Submarine Tenders.

Proposed FY'81 Maritime Administration Budget: The FY'81 Maritime Administration budget request includes $135 million for subsidized merchant ship construction — five bulk carriers are envisioned. This amount compares with $101 million authorized and appropriated for FY'80.

U.S. Coast Guard: For FY'81, U.S. Coast Guard requests approximately $125.0 million for construction of one medium endurance cutter (WMEC), one 140-foot icebreaking tug (WTGB) for Great Lakes service, one river tender (WLR) and ten 41-foot search and rescue boats.

U.S. Corps of Engineers: New funding for U.S. Army Corps of Engineers includes $68.4 million to supplement prior year programs for one large and one medium class hopper dredge already under construction and rehabilitation funds for existing dredges and other floating equipment.

Employment Hours and Earnings: Latest tabulation of 1979 data made available by the U.S. Bureau of Labor Statistics (BLS) shows that the total employment in private shipyards had reached 168,200 in October. Average for ten months was 162,400. Yearly averages for 1978 and 1977 were 169,300 and 174,100 respectively. BLS figures further indicated that during October, employment of production workers totaled 134,400. Comparable annual averages of production workers for 1978 and 1977 were 135,300 and 139,500 respectively.

Gross hourly earnings of shipyard production workers averaged $7.81 in October 1979 as compared to a yearly average of $6.97 in 1978 and $6.35 in 1977. Average weekly earnings in October 1979 amounted to $317.09 as compared to an annual average of $271.13 in 1978 and $250.19 in 1977. Private shipyard production workers worked an average of 40.6 hours per week in October 1979, as compared to an annual average of 38.9 hours in 1978 and 39.4 hours in 1977.

All employment, hours and earnings statistics for the private shipbuilding and repairing industry were again revised by BLS in 1979 to a new benchmark. Data for 1977, 1978 and 1979 are the only years affected by the benchmark change.

Naval Shipyard Employment: In October 1979, employment in the eight government-owned and operated naval shipyards totaled 69,900. The average for the first ten months of 1979 was 70,900. Averages for 1978 and 1977 were 70,600 and 67,600 respectively.

COMPARISON

Proposed FY '81 Federal Budget for Shipbuilding and Repair with Prior Years Appropriations

(MILLIONS)

	FY '79 Actual	FY '80 Appropriated	FY '81 Request
Navy Shipbuilding & Conversion	$5,148.8	$ 6,682.3	$ 6,118.4
Navy Ship Repair/Alteration (Est.)	2,924.7	3,026.2	3,687.2
Merchant Ship Construction	157.0	101.0	135.0
U.S. Coast Guard (Est.)	109.5	112.5	125.0
Corps of Engineers	59.6	88.8	83.4
TOTAL	$8,399.6	$10,010.8	$10,149.0

NAVAL VESSELS

Deliveries by calendar years
(Ships of 1,000 light displacement
tons and larger)

NUMBER OF SHIPS

NAVAL VESSELS

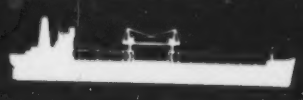
Deliveries by calendar years
(Ships of 1,000 light displacement
tons and larger)

TONS IN THOUSANDS

NAVAL VESSELS

Building or on order as of Jan. 1
(Ships of 1,000 light displacement
tons and larger)

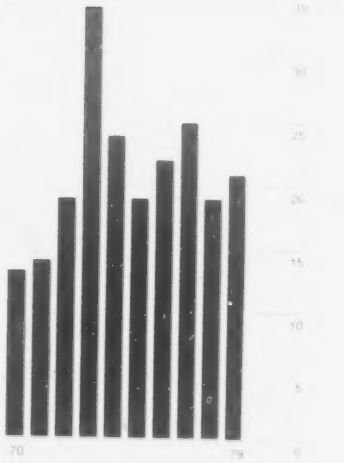
NUMBER OF SHIPS



MERCHANT VESSELS

Deliveries by calendar years
(Ships of 1,000 gross
tons and larger)

NUMBER OF SHIPS



MERCHANT VESSELS

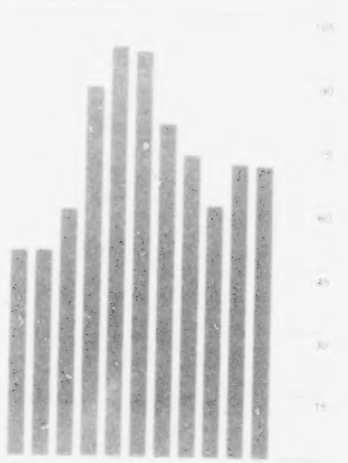
Deliveries by calendar years
(Ships of 1,000 gross
tons and larger)

TONS IN THOUSANDS

MERCHANT VESSELS

Building or on order
as of Jan. 1
(Ships of 1,000 gross tons and larger)

NUMBER OF SHIPS



NAVAL VESSELS

Building or on order as of Jan. 1
(Ships of 1,000 light displacement tons and larger)

TONS IN THOUSANDS

NAVAL VESSELS

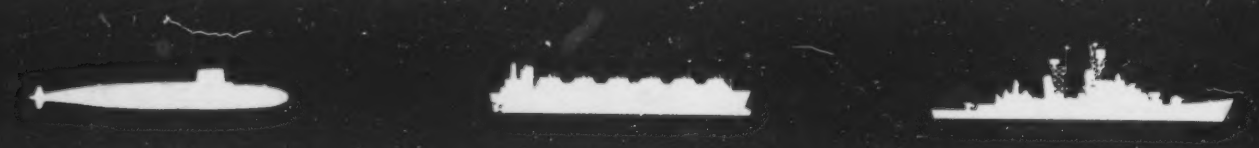
Ordered by calendar years
(Ships of 1,000 light displacement tons and larger)

NUMBER OF SHIPS

NAVAL VESSELS

Ordered by calendar years
(Ships of 1,000 light displacement tons and larger)

TONS IN THOUSANDS



MERCHANT VESSELS

Building or on order
as of Jan. 1
(Ships of 1,000 gross tons and larger)

TONS IN THOUSANDS

MERCHANT VESSELS

Ordered by calendar years
(Ships of 1,000 gross tons and larger)

NUMBER OF SHIPS

MERCHANT VESSELS

Ordered by calendar years
(Ships of 1,000 gross tons and larger)

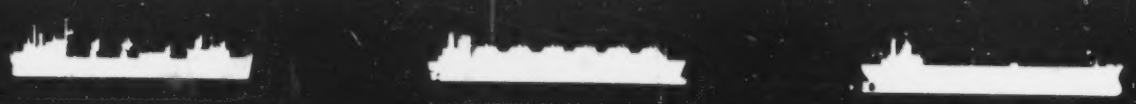
TONS IN THOUSANDS

STATISTICAL SUMMARY

Shipbuilding Activity in Private Shipyards (During Calendar Years 1976, 1977, 1978, and 1979)

	1976		1977		1978		1979	
Merchant Vessels	NO.	TONS	NO.	TONS	NO.	TONS	NO.	TONS
Under Construction Jan. 1	79	4,673,829	72	4,237,675	60	3,467,303	70	2,635,192
Ordered during year	16	339,371	13	265,500	30	397,303	21	487,170
Delivered during year	22	754,525	25	1,035,872	19	1,027,134	21	1,298,414
Cancelled during year	1	21,000	0	0	1	199,000	1	7,500
Under Contract on Dec. 31	72	4,237,675	60	3,467,303	70	2,635,192	69	1,816,448
Naval Vessels								
Under Construction Jan. 1	76	689,790	88	711,590	91	652,457	102	676,913
Ordered during year	20	91,322	15	88,616	25	119,478	13	60,646
Delivered during year	8	69,522	12	147,749	14	95,022	16	107,777
Under Contract on Dec. 31	88	711,590	91	652,457	102	676,913	99	629,782

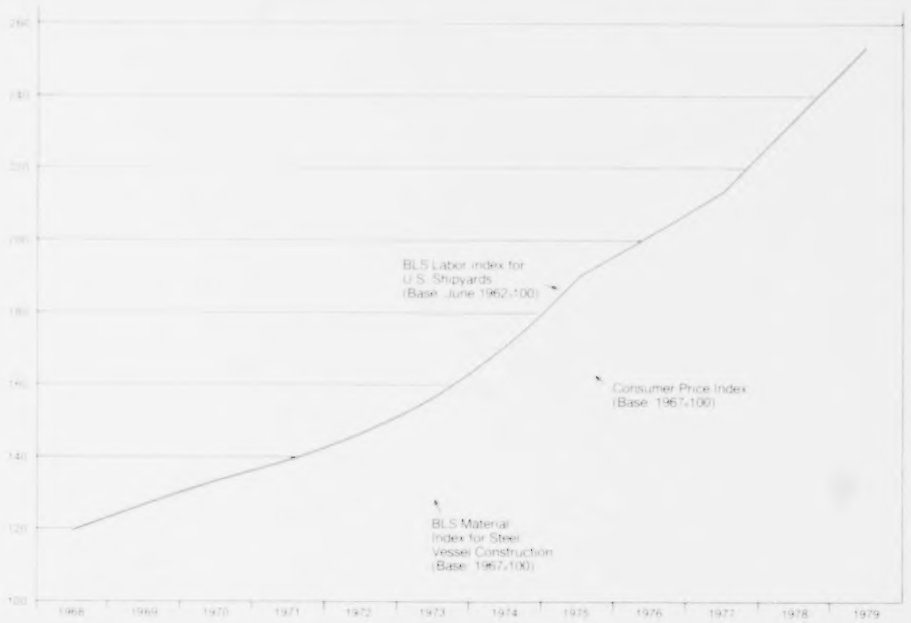
Notes: Vessels of 1,000 tons and larger, tonnage of merchant ships shown in gross tons, naval vessels in light displacement tons.



Large Merchant Type Vessels Under Construction or on Order (1,000 gross tons and larger)

	January 1, 1977		January 1, 1978		January 1, 1979		January 1, 1980	
	NO.	G.T.	NO.	G.T.	NO.	G.T.	NO.	G.T.
Ferry	4	4,945	3	11,250	8	27,580	9	29,680
Icebreaker	1	4,950	0	0	0	0	0	0
Tanker, Oil	31	2,380,168	17	1,638,468	12	993,384	9	267,000
LNG Carrier	16	1,331,125	16	1,331,125	11	952,525	7	632,725
Tug/Barge	2	28,000	2	28,000	5	70,000	12	245,000
Roll on/Roll off	2	32,527	0	0	0	0	0	0
Ro/Ro Barge	0	0	1	7,500	1	7,500	0	0
Containership	5	115,960	5	115,960	5	119,060	6	194,400
Container — Ro/Ro Ship	0	0	0	0	2	37,000	3	55,500
Barge Carrier	0	0	2	60,000	2	60,000	2	60,000
Heavy-Lift	0	0	2	8,000	1	4,000	0	0
Breakbulk	0	0	3	3,000	3	3,000	2	2,000
Dry Bulk Carrier	10	336,700	8	261,000	12	338,700	11	297,700
Hopper Dredge	1	3,300	0	0	4	16,443	6	30,443
Pipe Laying Ship	0	0	1	3,000	1	3,000	0	0
Tuna Purseiner	0	0	0	0	3	3,000	2	2,000
Totals	**72**	**4,237,675**	**60**	**3,467,303**	**70**	**2,635,192**	**69**	**1,816,448**

Average Indicies: Values for U.S. Shipyard Labor/ Material and Consumer Price



Approximate Value of Unfinished Shipbuilding Work in Private Shipyards as of January 1

(thousands of dollars)

YEAR	COMMERCIAL SHIPS	NAVAL SHIPS	TOTAL
1968	788,000	1,649,000	**2,437,000**
1969	800,000	1,700,000	**2,500,000**
1970	765,000	1,719,000	**2,484,000**
1971	765,000	1,925,000	**2,690,000**
1972	1,058,000	2,255,000	**3,319,000**
1973	2,950,000	3,160,000	**6,110,000**
1974	3,770,000	3,603,000	**7,373,000**
1975	4,350,000	5,424,000	**9,774,000**
1976	3,400,000	6,500,000	**9,900,000**
1977	3,000,000	6,802,000	**9,802,000**
1978	2,120,000	7,508,000	**9,628,000**
1979	1,940,000	9,369,000	**11,309,000**
1980	2,070,000*	9,075,000*	**11,145,000***

*Preliminary

Naval Vessels Under Construction or on Order in Private Shipyards as of January 1, 1980

TYPE	NO. OF VESSELS	TOTAL LIGHT DISP. TONS
Destroyer Tender (AD)	4	53,600
Fleet Oiler (AO)	5	47,500
Submarine Tender (AS)	1	13,400
Guided Missile Cruiser (Nuclear) (CGN)	1	8,022
Aircraft Carrier (Nuclear) (CVN)	1	71,000
Destroyer (DD)	6	30,000
Guided Missile Destroyer (DDG)	5	41,710
Guided Missile Frigate (FFG)	35	95,445
Amphibious Assault Ship (LHA)	1	23,000
Ballistic Missile Submarine (Nuclear) (SSBN)	7	87,500
Attack Submarine (Nuclear) (SSN)	23	138,000
Fleet Ocean Tug (T-ATF)	5	7,375
Cable Repair Ship (T-ARC)	1	8,430
USCG Medium Endurance Cutter (WMEC)	4	4,800
TOTAL	**99**	**629,782**

Dollar Volume of Repair and Conversion Work Performed by Private Yards

(millions of dollars)

	COMMERCIAL SHIPS**		NAVAL SHIPS		
YEAR	$ AMOUNT	%	$ AMOUNT	%	TOTAL
1968	458	55.8	363	44.2	**821**
1969	532	58.1	384	41.9	**916**
1970	431	54.6	359	45.4	**790**
1971	450	58.1	325	41.9	**775**
1972	484	55.6	387	44.4	**871**
1973	523	57.0	393	43.0	**916**
1974	713	57.0	533	43.0	**1246**
1975	688	55.4	554	44.6	**1242**
1976	715	52.6	644	47.4	**1359**
1977	756	50.5	741	49.5	**1497**
1978	780*	46.7	891*	53.3	**1671***
1979	800*	47.9	870*	52.1	**1670***

*Estimated

**Includes Military Sealift Command (MSC)

Source-Bureau of Census and Shipbuilders Council of America

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161 William Street
New York, NY 10038

Western Shipbuilding Assn.
Post Office Box 3476
San Francisco, CA 94119

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(a) to promote the maintenance of a sound private shipbuilding and ship repair industry in the United States;

(b) to inform its members of economic, governmental, industrial, legislative and judicial developments affecting the shipyard industry of the United States, either directly or indirectly;

(c) to improve conditions under which the operations of the industry are carried on;

(d) to conserve and develop the industry as an essential element of national sea power;

(e) to promote the development and maintenance of an adequate mobilization potential of privately-owned shipbuilding, ship repair and allied industry facilities as well as skilled personnel for availability in time of national emergency;

(f) to preserve a balanced workforce and to promote employment opportunities for disadvantaged citizens;

(g) to inform the public of the role of shipbuilding and ship repairing in terms of impact on the national economy and in terms of technological progress;

(h) to promote the interests of the industry through the conduct of usual and lawful trade association activities; and

(i) to establish and maintain active cooperation by shipbuilders, ship repairers, and allied industries with such other persons, groups, corporations, and associations as may have a joint interest in the attainment of the foregoing purposes.

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SHIPBUILDERS COUNCIL OF AMERICA
600 New Hampshire Avenue, NW
Washington, DC 20037

ERRATUM ERRATUM ERRATUM

A regrettable error has been noticed on the final page of the Council's 1979 ANNUAL REPORT, a copy of which was recently forwarded you.

The address of Newport News Shipbuilding is incorrect and should read:

Newport News Shipbuilding
4101 Washington Avenue
Newport News, VA 23607

It is requested that you correct your copy with the enclosed label, and we apologize to all concerned for this unfortunate mistake.

Edwin M. Hood
President

Newport News Shipbuilding
4101 Washington Avenue
Newport News, VA 23607